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Testimony of David L. Moore
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To the
General Farm Commodities and Risk Management Subcommittee
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Mr. Chairman, the Texas Wheat Producers Association is pleased to have this opportunity to offer our thoughts on crop insurance reform. We applaud you, Chairman Moran, and the subcommittee members, for your diligent efforts to provide effective and affordable insurance for farmers.

Crop insurance needs reform. This fact was made evident by the need for disaster assistance legislation last year. The passage of the Agricultural Risk Protection Act was a major improvement in crop insurance and our proposals today build on ARPA's reforms. Nevertheless, the cost of higher levels of coverage and the inability of crop insurance to address the needs of disaster affected farmers has led the Texas Wheat Producers Association to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment. Our proposals intend to be cost effective, especially compared to disaster funding.

TWPA has four primary goals for crop insurance reform. They are, in order of priority, as follows:

1. More affordable coverage at higher levels.

2. Prevent or slow declining APH due to consecutive disasters.

3. Establish Farm Savings Accounts, which become available in the event of disaster.

4. Establish a minimum loss standard.

I would like to discuss each of these primary goals in turn.

Coverage levels

The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65% MPCI (APH) or 70% CRC, therefore these are the levels most farmers purchase. Consequently, most farmers face a 30 - 35% deductible in the event of disaster. At 70% CRC, a farmer looses roughly 1 1/2 years of income before any claim is paid. An 85% coverage would cover some of this gap; however, higher coverage must be affordable. The availability of higher coverage is of little use if a farmer cannot afford the premium.

Therefore, in order to help producers reach higher coverage levels; the cost of higher coverage must be reduced.

Actual Production History

The nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the nation's Wheat Belt suffered from two to six years of drought. Here in Texas some areas have had below average rainfall for many consecutive years. Each year of crop failure reduces a farmer's APH, eroding the crop insurance safety net.

The minimum yield plug is an effective tool; however, the current 60% plug is too low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. For example, if a farmer purchased 75% coverage, their yield plug would be 75%. This rewards the producer who buys up coverage. Another factor to consider is that a T yield based on a short time frame is impacted more drastically by consecutive disasters. It is my understanding the current T yield plug is based on NASS 10-year historical data per county. If the T yield were based on a longer time frame, then the effect of consecutive disasters would be minimized.

Therefore, a more stable yield "plug" floor would help farmers through consecutive disasters.

Farm Savings Accounts

TWPA and other farm organizations have supported the creation of these accounts in previous Farm Bills. Tax-deductible contributions with taxable distributions would be fundamental principles of these accounts. A USDA match, as well as tax deferred growth, would provide incentive for account establishment.

Therefore, Disaster Reserve Accounts held in local financial institutions would provide stability to farm income and security to rural communities.

Minimum Loss Standard

The deduction of a salvage yield from a disaster affected crop obviously reduces crop insurance coverage. Currently a farmer with an APH of 40 bushels per acre and 70% coverage assumes a 28-bushel per acre guarantee. The custom harvest cost for wheat in Texas is around $14/acre. At this cost and a $3.00 per bushel price, a farmer with an appraised salvage yield of 4 bushel/acre couldn't economically justify harvesting the remaining crop. This effectively drops his coverage to 24 bushel per acre or a 60% guarantee instead of 70%.

Therefore, when the cost of harvesting a loss affected field exceeds the appraised salvage value, that field or insured unit should be assigned an appraisal of "0".

Conclusion

Mr. Chairman and members of the subcommittee, we thank you for this opportunity to testify, and we look forward to working with you on this effort. I'll be happy to respond to any questions you may have, and pledge the Texas Wheat Producers Association’s assistance to you in developing, refining and implementing a more effective risk management product.